BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2019-184-E

IN RE: South Carolina Energy Freedom Act (H.3659) Proceeding to Establish Dominion Energy South Carolina, Incorporated's Standard Offer, Avoided Cost Methodologies, Form Contract Power Purchase Agreements, Commitment to Sell Forms, and Any Other Terms or Conditions Necessary (Includes Small Power Producers as Defined in 16 United States Code 796, as Amended) - S.C. Code Ann. Section 58-41-20(A)	)	**SURREBUTTAL TESTIMONY OF HAMILTON DAVIS ON BEHALF OF SOUTH CAROLINA SOLAR BUSINESS ALLIANCE**

I. INTRODUCTION AND PURPOSE OF SURREBUTTAL TESTIMONY

Q. Please state your name and business address.

A. My name is Hamilton Davis, and my business address is 1519 King Street Extension, Charleston, SC 29405.

Q. Have you previously filed direct testimony in this proceeding before the South Carolina Public Service Commission?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to certain issues raised by Dominion Energy South Carolina ("DESC") in the rebuttal testimony of Mr. John Raftery.

II. RESPONSE TO WITNESS RAFTERY

Q. Witness Raftery implies in his rebuttal testimony on Page 8 Lines 12 – 22 that your direct testimony suggests Act 62 requires customers to subsidize and assume the risk associated with renewable resources developed within the framework of the Act. Is this accurate?

A. No. My direct testimony explicitly states that, "this Commission is directed to address all renewable energy issues in a fair and balanced manner that considers costs and benefits to all customers and establishes just and reasonable rates that reflect changes in the utility industry as a whole." (Davis Direct at 4). My direct testimony also points out that any decisions by this Commission, "shall strive to reduce the risk placed on the using and consuming public." (Davis Direct at 5). What SCSBA seeks in this proceeding – Commission approval of *accurate* avoided cost rates, along with commercially reasonable terms and conditions for solar QFs – is entirely consistent with these goals.

Q. What is your response to Witness Raftery regarding his claim that Act 62 does not represent a shift away from a "business as usual" regulatory approach?

A. Although Witness Raftery claims that my direct testimony was not entirely clear in this regard, my direct testimony was quite specific. Act 62 significantly increases the Commission oversight and utility transparency required in avoided cost proceedings while also requiring that small power producers be treated in a non-discriminatory manner. The statute includes a new directive that in setting avoided cost rates, the Commission "shall treat small power producers on a fair and equal footing with electrical utility-owned resources." S.C. Code Ann. § 58-41-20(B). In addition, novel requirements related to energy storage, ancillary services, Commission use of independent third-party experts, commercially reasonable contract terms, and contract tenor all reflect statutory changes that signify South Carolina's shift away from a "business-as-usual" regulatory approach to avoided cost proceedings. In addition, the statute includes new requirements (codified in S.C. Code Ann. § 58-37-40) that increase the level of transparency and scrutiny of the utilities' integrated resource plans, which are a critical input in avoided cost calculations.

Q. Witness Raftery claims that solar does not provide a risk-hedge to customers as it relates to utility development and ownership of other generation because solar does not provide a capacity benefit to DESC. Likewise, Witness Raftery relies on this same argument elsewhere in his rebuttal testimony to suggest SPPs do not compete with DESC for generation because solar does not offset DESC's capacity needs. Do you agree with his assessment?

A. No. The whole premise of Witness Raftery's argument is that SPPs do not provide capacity value to DESC's system. He ignores the fact that the Company's avoided capacity

calculations for DESC, including the conclusion that solar does not provide capacity, are disputed by SBA Witness Burgess in this proceeding and that the capacity contribution from solar is an issue that will be resolved by this Commission. ORS Witness Horii agrees that DESC's calculations are flawed in that they provide no capacity value to solar, and his testimony recommends significant changes to the avoided capacity calculation produced by DESC, which results in substantial additional capacity value being credited to QF solar. The rationale underpinning avoided capacity payments is in large part to provide QFs with payments for utility capacity needs that are either delayed or would otherwise be borne by ratepayers for utility-built generation.

Additionally, when more of DESC's system energy needs are met with QF solar, fewer megawatt hours must be met by the Company's generating units, which delays or avoids the need for future investments in baseload- and intermediate-type power plants in favor of lower-cost peaking plants. Thus, QF solar competes with DESC for generation on an energy basis regardless of capacity benefits. And since baseload and intermediate plants are more complex in their design and construction and have a larger upfront capital cost than peakers, QF energy likewise provides a risk-hedge to customers as it relates to utility development and ownership of generation.

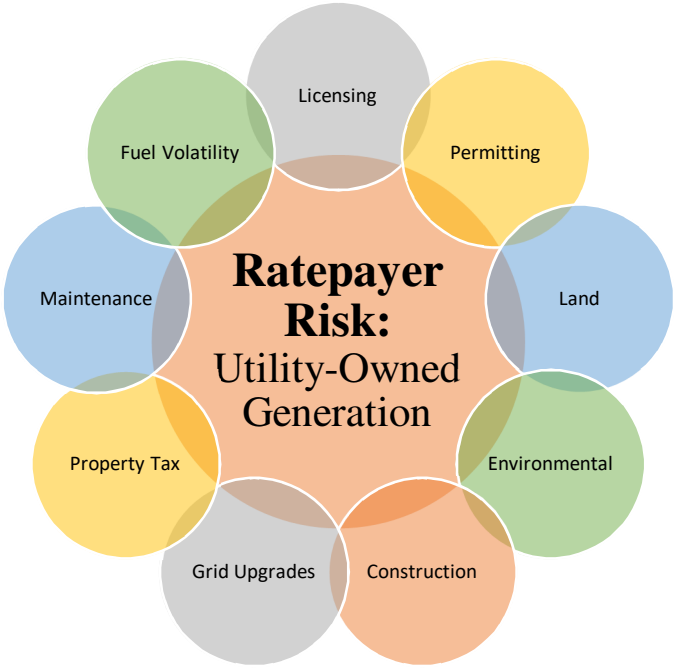
Witness Raftery also ignores completely the role of storage and its ability to provide capacity when it is needed by the Company. QF storage resources are an integral part of Act 62 and this proceeding, yet the value and flexibility of storage resources are not addressed by Witness Raftery in his rebuttal testimony. The only discussion of energy storage in Witness Raftery's rebuttal testimony is in reference to the Merger Settlement Agreement and the Company's intention to file "storage programs" with this Commission

after the current proceeding has concluded and prior to December 31, 2019 (Raftery Rebuttal at 12). In my view DESC's decision to proceed in this fashion, rather than allow the Commission to review their storage proposal in this docket, undermines the goals of Act 62 and represents a waste of the Commission's and the parties' resources.

Q. Do you agree with Witness Raftery that the Utility Facility Siting and Environmental Protection Act, S.C. Code Ann. Section 58-33-10, et seq. ("Siting Act") protects ratepayers with respect to the addition of new generation facilities?

A. I agree that the Siting Act is intended, in part, to mitigate the risk borne by ratepayers for the construction of new generation facilities. However, customers nonetheless bear the risk for a range of unplanned costs that are inherent to utility-owned generation, such as the risks outlined in Fig. 1 below, which also appeared in my direct testimony (Davis Direct, Fig. 4 at 11).

Fig. 1: Ratepayer Risk from Utility-Owned Generation



Q. Do you agree with Witness Raftery that neither PURPA nor Act 62 intended for solar power to be a risk hedge against utility-owned generation?

A. No. The Commission is explicitly directed by Act 62 to "strive to reduce the risk placed on the using and consuming public (58-41-20(A)." That includes reducing risk from utility-owned generation through deployment of SPP-owned renewable resources. Additionally, Congress did intend for PURPA to shift a portion of electric generation away from resources built, owned, and rate-based by vertically integrated monopoly electric utilities, which often resulted in cost overruns paid by ratepayers. And one of the key goals of PURPA was to insulate utility ratepayers from fuel price risks associated with foreign oil and natural gas.[1]

Q. Do you agree with Witness Raftery that the Merger Settlement Agreement reached between SBA and DESC regarding all-source competitive solicitation requirements for any new generating resource larger than 75 megawatts eliminates risk that DESC will add large capacity plants to the exclusion of renewables?

A. I agree that the all-source competitive solicitation requirements of the Merger Settlement Agreement represent an additional layer of protection for utility customers by ensuring the cost effectiveness of utility investments. However, the Merger Settlement Agreement only guarantees those all-source competitive solicitation requirements through 2023, which is

[1] See, e.g., *FERC v. Mississippi*, 456 U.S. 742, 756 (1982) (recounting PURPA's statutory directives); H.R. Rep. No. 95-1750 at 9 (1978) (Conf. Rep.) (documenting the legislative history and development of PURPA). See also, Richard Munson, From Edison to Enron: The Business of Power and What it Means for the Future of Electricity, 103-107 (2005) (recounting that Senator John Durkin was a proponent of competition in the electric industry and supported by manufacturers that were interested in installing their own generation as a means to "avoid the high costs of utilities' over-budget reactors").

prior to any planned additions of major generating facilities to DESC's system (according to DESC's 2019 IRP). Thus, the effectiveness of this particular term of the Merger Settlement Agreement is open to question.

Q. Do you agree with Witness Raftery that "solar providers have an unregulated price incentive to seek the highest possible avoided costs in order to maximize their own returns for their investors"?

A. No. First, the price paid to SPPs by DESC is regulated by this Commission and will be determined in this proceeding, just as the rates charged by DESC to its customers are regulated by this Commission and determined in rate proceedings.

Second, it is unclear what Witness Raftery means by the phrase "highest possible avoided costs." It is certainly possible for the SBA to recommend that avoided cost rates be set at a level higher than we, in fact, have recommended in this proceeding. Instead, SBA Witness Burgess has provided credible expert testimony that calculates just and reasonable avoided cost rates for this Commission to consider.

As also noted in my direct testimony: the SCSBA represents member companies that compete against each other, as well as utilities, and believes that avoided cost rates should be just and reasonable and should, to the extent possible, accurately reflect the costs being avoided by the utility. There is a finite amount of land in South Carolina suitable for solar development, and the capacity needs that SPPs can effectively displace on any utility's system is also finite. Arbitrarily high avoided cost rates can encourage market entry by power producers that could not otherwise compete in a lower cost environment. A huge influx of QF projects that might result from "arbitrarily high" avoided cost rates would also result in further clogging of the DESC interconnection queue, which is already

backlogged. Competition should and does drive costs down over time, and this is to the benefit of ratepayers, as well as to SPPs that are able to effectively manage costs in a competitive, lower-cost environment (Davis Direct at 14).

Q. Does this conclude your surrebuttal testimony?

A. It does.